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Corporate governance, control and individualism as a definition of business success. The idea of a "post - heroic" leadership.

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Abstract

Corporate governance is a multiple term which means control, leadership, individualism and business management in the area of corporations and economic systems (MacKenzie, 1992). It represents a whole community of stakeholders, employees and customers. In this paper, we will examine the relations inside the corporations, we will also define the term: corporate governance and we will give the synthesis of Board directors and CEO councils around the world. A logical question that arise is, if the leader of a corporation has to cooperate or it makes more sense if he takes all the decisions by himself. Is today's corporate leaders a kind of heroes and in which cases? The idea of control and individualism is not a new idea but under certain factors it means responsibility, business ability and capacity to any change. Organizational change and ability to control or to guide people and corporations is a unique strategic advantage and make the difference to all kinds of leadership.

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1. Introduction

Corporate governance is a number of processes, customs, policies and laws which have impact on the way a company or corporation is directed, administered and controlled and also defines the relationship between

stakeholders as well as the goals of a corporation. Both parties are accurate and, in fact, with corporate governance, the stakeholders are the shareholders, the board of directors, the employees, the customers, the creditors, the suppliers and the whole community. So, the corporation should be governed in a way that everyone benefits according to their role within that very corporation. A well- defined and enforced corporate governance provides a structure that, at least in theory, works for the benefit of everyone concerned by ensuring that the enterprise adheres to accepted ethical standards and best practices as well as to formal laws. To that end, organizations have been formed at the regional, national, and global levels.

2. Fields of Corporate Governance

These fields include areas such as:

- **Accountability:** These advocate the implementation of guidelines and mechanisms to ensure management acts and protection of public organisation from wrongdoing.
- **Economic efficiency:** This involves how the corporate governance system intends to optimise results (MacKenzie, 1992).
- **Strategic efficiency:** Involves public policy objectives not directly measurable in economic terms such as alleviation of poverty, access to markets, income stabilisation, health care and job creation.
- **Stakeholder:** This area of study focuses more attention on other stakeholders such as citizens, employees, businesses and other levels of government i.e. provincial, municipal or local authorities. Since 2001, the interest in corporate governance practices has increased (Shleifer and Vishny, 1997). This is mostly due to the high profile collapses of such large name companies as Enron and MCI WorldCom. In fact, in 2002, the US government passed the Sarbanes-Oxley Act that was intended to restore the public's confidence in corporate governance once more (Velentzas and Broni, 2010). Effective or heroic corporate governance relies on certain laws to be passed, as well as a certain commitment from the marketplace and also a healthy board culture, as long as this will make sure policies and processes remain constant and stable (Shleifer and Vishny, 1997).

2. 1. Example

It is easier to point out examples of "bad" governance than "good" governance. The most famous example of bad governance is Enron. Executives lied about Enron's financial results for years in order to increase the value of personal stock options. Their actions went undetected by the board, the auditor, ratings agencies, regulators, and the media for many years until the company ultimately collapsed into bankruptcy (Morck, Shleifer and Vishny, 1989). If Enron had had a more effective governance system in place, this behaviour would have been detected many years earlier and management would have been replaced. How a company is managed, in terms of the institutional systems and protocols meant to ensure accountability and sound ethics. The concept encompasses a variety of issues, including disclosure of information to shareholders and board members, remuneration of senior executives, potential conflicts of interest among managers and directors, supervisory structures.

2. 2. *The emperor has no clothes*

Corporate governance is parallelized with so much smoke, that we have lost sight of the fire. This fire is the real message and definition of corporate governance, which is undoubtedly beneficial to all, that should be good directors. We all want to increase the value, and Corporate Governance is often seen as cost ineffective, bringing little or no benefits - the smoke gets in the eyes, as it were. What someone the leader or the hero

needs to do is to apply the principles of good governance to the whole corporation (Shleifer and Vishny, 1997). This could be described as: "looking at Management and Heroic Leadership through Corporate Governance-tinted glasses" i.e. taking a fresh look at management structure taking into account all interested parties and ensuring all the necessary monitoring, control and individualism are in place to ensure that shareholder value is always at the forefront (Sampson, 1988). So, the definition of corporate governance is: "Effective corporate governance ensures that long-term strategic objectives and plans are established, and that the proper management and management structure are in place to achieve those objectives, while at the same time making sure that the structure functions to maintain the corporation's integrity, reputation, and accountability to its relevant constituencies".

3. Definition of Corporate Governance

The definition of corporate governance most widely used is: "the system by which companies are directed and controlled" (Cadbury Committee, 1992). More specifically it is the framework by which the various stakeholder interests are balanced and it represents "the relationships among the management, Board of Directors, controlling shareholders, minority shareholders and other stakeholders".

Corporate governance consists of two elements (Velentzas and Broni, 2010a):

The long term relationship which has to deal with checks and balances, incentives for manager and communications between management and investors; The transactional relationship which involves dealing with disclosure and authority (Velentzas, Mamalis and Broni, 2010). This implies an adversarial relationship between management and investors and an attitude of mutual suspicion. Corporate governance is consisting of five elements which the board must consider (Hart, 1995)

- long term strategic goals
- employees: past, present and future
- environment / community
- customers / suppliers
- compliance legal / regulatory

This definition was endorsed by Sir Adrian Cadbury describing Five Golden Rules by which a system of good corporate governance should be operated and set out a practical methodology for implementing and monitoring Real World Corporate Governance.

4. Leadership: the key element in corporate governance

Management leadership, especially top management, is probably the most critical element in a major organizational change effort such as corporate governance (Fletcher and Käufer, 2003). This leadership role cannot be delegated, for example, to a consultant (Arrow, 1974). Two recent change efforts dramatically illustrate this point: In 1983, CEO Don Lennox, along with other top managers, assessed the firm's management practices, concluding that improvements were needed. After studying change efforts at other companies, they decided the top officers should become the change agents in their own units. Team-building was used extensively. The resulting Continuous Improvement Teams CITs were led not by human resource or organization development specialists but by middle-level line managers. Along with other management-led interventions, CITs have changed the company from a sluggish, unprofitable bureaucracy into a streamlined, world-class manufacturer with a solid reputation as an innovator (Broni, 2010).

5. Separation of Ownership and Control

The corporation, in contrast, for example, to a partnership, separates ownership from operational control; this concept is, of course, fundamental to any definition of corporate governance and is commonly referred to as the agency issue, or Agency Theory. It is this separation which creates the need for systems of independent monitoring and control (Jensen, 1993). It was the freedom that this separation created to take much bigger risks in order to expand that prevented for so long the permission of such organizations to exist, with the potential dangers it implied. And it is this freedom which has required mechanisms to be constructed to try and prevent it being abused. Historically, in Western societies, the individualistic approach can be seen as a matter of leadership, governance and corporate behavior in various areas of corporate governance (Hoffman, 1981; Hosking, 1995).

6. Different Countries, Different Models

This has led to different systems in different countries, depending on which constituent or interested party in the company's operations has been given the most importance. In the Anglo-Saxon world, for example, there has always been a single board of directors consisting of executive and non-executive, or independent directors (Jensen, 1993). Elsewhere, a two tier structure exists to balance the executive board with representatives from other stakeholder groups like employees and bankers like the Supervisory Board in Germany.

7. Principles of corporate governance

- Rights and equitable treatment of shareholders: Organizations should respect the rights of shareholders and help shareholders to exercise those rights. They can help shareholders exercise their rights by openly and effectively communicating information and by encouraging shareholders to participate in general meetings.
- Interests of other stakeholders: Organizations should recognize that they have legal, contractual, social, and market driven obligations to non-shareholder stakeholders, including employees, investors, creditors, suppliers, local communities, customers, and policy makers.
- Role and responsibilities of the board: The board needs sufficient relevant skills and understanding to review and challenge management performance. It also needs adequate size and appropriate levels of independence and commitment (Velentzas and Broni, 2010a).
- Integrity and ethical behaviour: Integrity should be a fundamental requirement in choosing corporate officers and board members. Organizations should develop a code of conduct for their directors and executives that promotes ethical and responsible decision making.
- Disclosure and transparency: Organizations should clarify and make publicly known the roles and responsibilities of board and management to provide stakeholders with a level of accountability. They should also implement procedures to independently verify and safeguard the integrity of the company's financial reporting. Disclosure of material matters concerning the organization should be timely and balanced to ensure that all investors have access to clear, factual information (Arrow, 1974).

8. Corporate governance models around the world

8. 1. Continental Europe

Some continental European countries, including Germany and the Netherlands, require a two-tiered Board of Directors as a means of improving corporate governance (Morck, Shleifer and Vishny, 1989). In the two-tiered board, the Executive Board, made up of company executives, generally runs day-to-day operations while the supervisory board, made up entirely of non-executive directors who represent shareholders and employees, hires and fires the members of the executive board, determines their compensation, and reviews major business decisions.

8. 2. *The United States and the UK*

The so-called "Anglo-American model" also known as "the unitary system" emphasizes a single-tiered Board of Directors composed of a mixture of executives from the company and non-executive directors, all of whom are elected by shareholders. Non-executive directors are expected to outnumber executive directors and hold key posts, including audit and compensation committees. Individual rules for corporations are based upon the corporate charter and, less authoritatively, the corporate by laws. Shareholders cannot initiate changes in the corporate charter although they can initiate changes to the corporate by laws (Grossman and Hart, 1982).

9. History

In the 20th century in the immediate aftermath of the Wall Street Crash of 1929 legal scholars such as Adolf Augustus Berle, Edwin Dodd, and Gardiner C. Means pondered on the changing role of the modern corporation in society. Berle and Means' monograph 'The Modern Corporation and Private Property' 1932 continues to have a profound influence on the conception of corporate governance in scholarly debates today. From the Chicago school of economics, Ronald Coase's 'The Nature of the Firm' 1937 introduced the notion of transaction costs into the understanding of why firms are founded and how they continue to behave (Velentzas and Broni, 2010c).

Fifty years later, Eugene Fama and Michael Jensen's 'The Separation of Ownership and Control' 1983, *Journal of Law and Economics* firmly established agency theory as a way of understanding corporate governance: the firm is seen as a series of contracts. Agency theory's dominance was highlighted in a 1989 article by Kathleen Eisenhardt 'Agency theory: an assessment and review', *Academy of Management Review*. Over the past three decades, corporate directors' duties in the U.S. have expanded beyond their traditional legal responsibility of duty of loyalty to the corporation and its shareholders.

10. Parties to corporate governance

The most influential parties involved in corporate governance include government agencies and authorities, stock exchanges, management including the board of directors and its chair, the Chief Executive Officer or the equivalent, other executives and line management, shareholders and auditors. Other influential stakeholders may include lenders, suppliers, employees, creditors, customers and the community at large. The agency view of the corporation posits that the shareholder forgoes decision rights control and entrusts the manager to act in the shareholders' best joint interests (Jensen, 1993). A board of directors is expected to play a key role in corporate governance (Freeman, 1974). The board has the responsibility of endorsing the organization's strategy, developing directional policy, appointing, supervising and remunerating senior executives and ensuring accountability of the organization to its investors and authorities (Arrow, 1974).

11. Financial reporting, the independent auditor and the idea of individualism.

The board of directors has primary responsibility for the corporation's external financial reporting functions. The Chief Executive Officer and Chief Financial Officer are crucial participants and boards usually have a high degree of reliance on them for the integrity and supply of accounting information. They oversee the internal accounting systems and are dependent on the corporation's accountants and internal auditors (Jensen, 1993). To reduce the risk and to enhance the perceived integrity of financial reports, corporation financial reports must be audited by an independent external auditor who issues a report that accompanies the financial statements. One area of concern is whether the auditing firm acts as both the independent auditor and management consultant to the firm they are auditing. This may result in a conflict of interest which places the integrity of financial reports in doubt due to client pressure to appease management. The power of the corporate client to initiate and terminate management consulting services and, more fundamentally, to select and dismiss accounting firms contradicts the concept of an independent auditor (Grossman and Hart, 1988).

12. Systemic problems of corporate governance

- Demand for information: In order to influence the directors, the shareholders must combine with others to form a voting group which can pose a real threat of carrying resolutions or appointing directors at a general meeting.
- Monitoring costs: A barrier to shareholders using good information is the cost of processing it, especially to a small shareholder. The traditional answer to this problem is the efficient market hypothesis in finance, the efficient market hypothesis E.M.H. asserts that financial markets are efficient, which suggests that the small shareholder will free ride on the judgments of larger professional investors (Blair, 1995).
- Supply of accounting information: Financial accounts form a crucial link in enabling providers of finance to monitor directors. Imperfections in the financial reporting process will cause same imperfections in the effectiveness of corporate governance (Hart, 1995). This should, ideally, be corrected by the working of the external auditing process.

13. Consequences for Corporate governance and individualism.

As already stated, the vast majority of research and theory in the area of organizational behaviour and management sciences is based on the principal assumptions inherent in self-contained individualism (Hosking, Dachler and Gergen, 1995). While such a socially constructed world view has given rise to many important insights and has provided very successful and helpful explanatory frameworks, it has simultaneously negated alternative conceptions and explanatory options that could provide crucial answers to new challenges faced by a rapidly changing world plagued by widespread disputes. Symptomatic of the individualistic bases for corporate governance is the large variety of extremely differentiated and highly characteristic stories, concepts and figures of speeches for describing the individual.

But if we wish to say something about relationships, the vocabulary available is rather restricted, and it is far more difficult to describe relationships as comprehensively as it is to describe the individual. The crucial and complex aspects of organizations are not the individual members but the way in which social relationships and communication function in holding an organizational system together that would otherwise slowly drift apart. If one looks at the main themes that dominate organizational research, the focus is on motivation, satisfaction, decision-making and developing strategies, teams, fear, stress, power, and the efficiency of the work process. These are, in effect, issues of a community of practice and not of individuals per se. The main themes in corporate governance have to do with issues such as trust in the leadership, availability and distribution of information, team conflicts, power struggles, dismissals of employees and

managers, mobbing, erroneous decisions and strategies, prejudice of various kinds, and so on (Hosking, 2006).

14. "Post-heroic" corporate leadership and individualism

Practitioners, as well as organizational researchers, have increasingly come to the conclusion that, in today's globalized economy, organizations of all kinds must find their competitive advantage (Lazonick, 1991) in more effective development of the prerequisites for organizational learning and greater creativity, as well as more effective mutual communication processes in the organization and its environment (Fletcher, 2004). In general, this emphasizes the development of abilities and the empowerment of organizational members on all levels, constructive handling of criticism and dealing fairly with the different perspectives of organization members. In the context of such challenges, it is not surprising that the first attempts to develop alternative leadership concepts have appeared in the literature in what could be called "post-heroic" leadership research (Fletcher, 2004; Fletcher & Käufer, 2003; Pearce & Conger, 2003; Dachler, 1999; Dachler and Hosking, 1995; Hosking, 2006). The general question asked in these early studies on alternative concepts of leadership is what happens to the notion of leaders when it no longer makes sense to conceptualize them as heroes. There are a number of fundamental theoretical considerations whereby post-heroic differs from individual conceptions of leadership (Hosking, 2006).

Foremost is the assumption that leadership is a mutual and integral process that is played out and distributed over the entire organization. For example, it is understood that a CEO who is perceived as the "head" of an organization assumes that position out of legal and public relations considerations. However, rather than attributing heroic characteristics to such a person, it is understood that a CEO is empowered, enabled and supported by a large and complex network of leadership practices distributed throughout the entire organization, operating in concert with various actors and institutions in the organizational environment (Grossman and Hart, 1988). It is important to realize that the recognizable, public results of an organization are made possible by the cooperative processes of organizational life and not by the actions of selected individuals at the "head" of an organization.

Inherent in a relational understanding of leadership is the idea of change (Fletcher, 2004). The focus rests on the expected results of the leadership process. Social interactions that are understood as leadership within the particular cultural context of an organization and its societal surroundings are those that result in learning and development for both the organization and the actors involved. In this case, leadership involves the social construction of a context in which mutual enabling processes can take place, in which knowledge is generated and distributed, and where joint learning, especially learning on the basis of diversity, is made possible. In today's conflict-ridden world, we might be forgiven for concluding that such views of leadership and other, similar conceptions of organizational issues are somewhat naive, or at least too complex, too idealistic or too unrealistic for organizations trying to survive in a global and highly competitive market (Arrow, 1974).

15. Conclusion

There are good reasons why the vast majority of organizational research, while certainly contributing to some very useful insights into the nature of organizations (Arrow, 1974) has sadly failed to understand, and therefore contribute to long-term, sustainable change. From a social constructionist point of view, long-term, sustainable change cannot be some final, objective 'end state'. Instead such change has to be viewed as an ongoing process, one whose final outcome cannot be known in an absolute sense but whose emergence and development can be constructed in some valued manner. Much of the research on organizational change still contains fundamental ideas that directly or indirectly value or contribute to competition, dominance,

delimitation, distrust, subject - object relationships, and so on. Thus, it is the overall methodology, i.e., the way we do organizational research, central assumptions and general hypotheses and the vast array of corresponding measurement and analyses tools, through which corporate governance constructs organizational change (Feyerabend, 1988; Gergen, 1994; Dachler, 2000).

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